

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

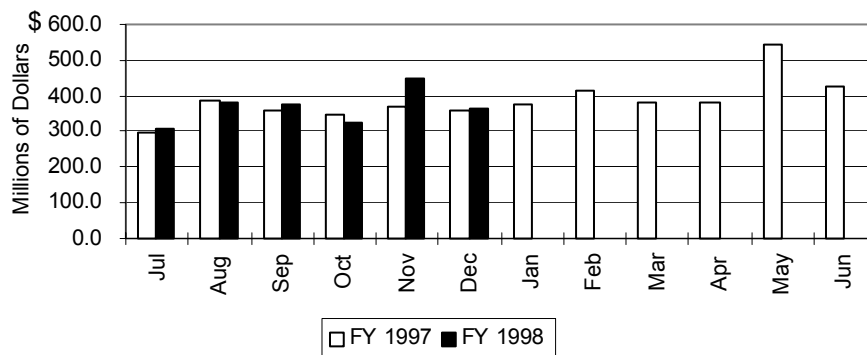
FROM: Dennis C. Prouty

DATE: January 2, 1998

General Fund Receipts Through December 31, 1997

The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.785 billion) set by the Revenue Estimating Conference (REC) on November 20, 1997. The estimate represents an increase of \$137.1 million (2.9%) compared to FY 1997. The current FY 1998 REC estimate includes the two major tax reduction bills passed during the 1997 Legislative Session; the 10.0% income tax reduction (HF 388) and the inheritance tax reduction (SF 35) as well as all bills passed during the 1997 Legislative Session.

Monthly General Fund Receipts - FY 1997 v. FY 1998

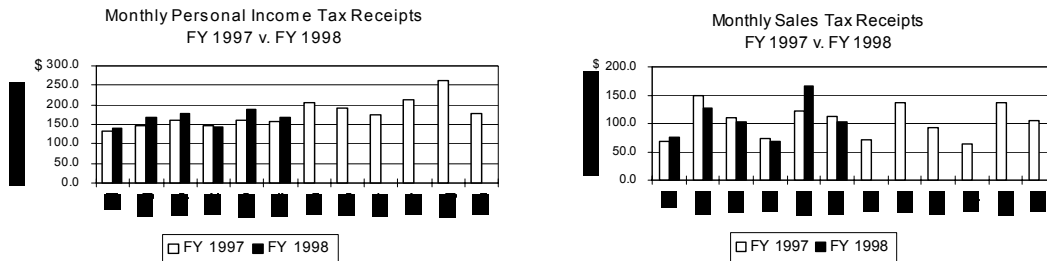


December 1997 Compared to December 1996

Total General Fund receipts collected in December were 1.9% higher compared to December 1996. Special tax receipts showed an increase of 2.1%. Personal income tax receipts increased 7.8%. Sales tax receipts were 8.6% lower than December 1996. Use tax receipts increased 12.7%, and corporate income tax receipts were 3.3% higher than December 1996.

FY 1998 Compared to FY 1997

Year-to-date revenue growth increased by \$81.8 million (3.9%) compared to FY 1997. This is above the current REC estimate of 2.9% for FY 1998. Lower than expected year-to-date revenue growth for sales tax (1.7% v. 5.1% as set by the November REC) has been offset by strong year-to-date growth in personal income tax and use tax.



Gross personal income tax revenues received in December were \$12.2 million (7.8%) higher than December 1996. Year-to-date receipts continue to be strong, with an increase of 8.7% compared to the FY 1997 amount. The primary cause of growth in personal income tax receipts is withholding payments, which are \$74.3 million (9.5%) greater than FY 1997.

The REC FY 1998 income tax estimate of \$2.232 billion represents a projected increase of 5.2% compared to FY 1997. As stated earlier, this reflects the 10.0% income tax reduction. The effects of the law change will not be evident until February 1998 when the withholding tables are updated to reflect the 10.0% tax reduction.

Sales tax receipts in December decreased below last year's level by \$9.6 million (8.6%). The change in the method of local-option sales tax payment to local governments is at least partially responsible for the weak December performance. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. This accounts for approximately \$9.8 million of the decrease in the monthly receipts. Total year-to-date receipts are \$10.5 million (1.7%) above last year's level. The current REC estimate for FY 1998 sales tax receipts is \$1.300 billion, which represents an increase of 5.2% compared to FY 1997.

Corporate income tax receipts in December were \$0.9 million (3.3%) higher than December 1996. After two months of relatively strong growth, October corporate income tax receipts fell behind last year's level by a significant amount. The growth in November and December has not offset the October loss significantly, with year-to-date receipts being \$9.9 million (7.5%) lower than FY 1997.

The November REC projected FY 1998 corporate income tax receipts would total \$300.0 million, a decrease of \$18.8 million (5.9%) compared to FY 1997.

Racing and gaming receipts in December were \$1.6 million (18.9%) lower than December 1996. However, the September and October growth has resulted in a year-to-date increase of \$0.8 million (1.4%) compared to FY 1997. The year-to-date gain is equally attributable to receipts generated by riverboats and slot machines.

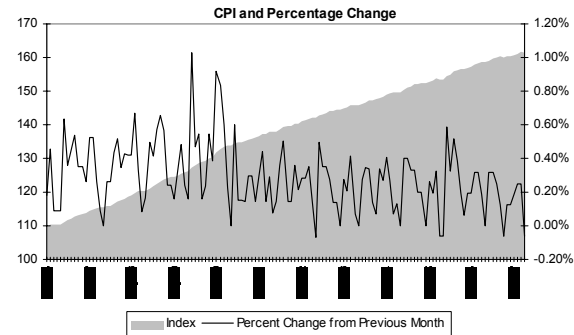
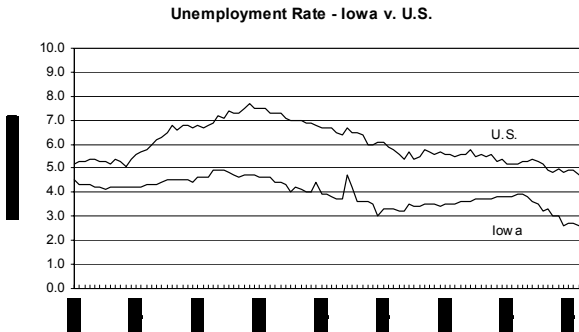
All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because there is virtually no doubt that receipts will exceed the \$60.0 million threshold. The November REC estimated that \$72.6 million from this source would be deposited to the Infrastructure Account in FY 1998.

Institutional payments in December were \$2.1 million (24.4%) lower than December 1996. The loss is primarily attributable to the change enacted in HF 715 (Human Services Appropriations Act) that prevents institutional reimbursements at the Glenwood State Hospital-School from being deposited into the General Fund. However, there is a corresponding reduction in appropriations as well from this provision.

Status of the Economy

The seasonally adjusted percent unemployed for the State increased from the 2.6% rate in October to 2.7% in November. The unemployment rate a year ago was 3.8%. Iowa's total November employment registered 1,537,600, down from October's level of 1,550,500, and lower than the March 1997 record high of 1,574,200. The number of unemployed persons in Iowa stood at 42,400 in November, up slightly since the October record low of 41,600. The U.S. unemployment rate in November also fell from October's level of 4.7% to 4.6%.

Consumer prices in October decreased 0.1%. The Consumer Price Index (CPI-U) through October 1997 was 161.5 (1983=100), which is 1.8% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through September 1997.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1997, through December 31, 1997, in millions of dollars					FY 97 Actual Compared to FY 98 REC Estimate		
	FY 1997	FY 1998	Year to Date % CHANGE	December % CHANGE	Actual FY 1997	Estimate FY 1998	% CHANGE
Personal Income Tax	\$ 901.7	\$ 980.5	8.7%	7.8%	\$ 2,123.1	\$ 2,232.9	5.2%
Sales Tax	633.2	643.7	1.7%	-8.6%	1,237.4	1,300.0	5.1%
Use Tax	110.3	121.5	10.2%	12.7%	223.1	245.0	9.8%
Corporate Income Tax	132.2	122.3	-7.5%	3.3%	318.8	300.0	-5.9%
Inheritance Tax	55.4	56.3	1.6%	7.5%	109.3	97.2	-11.1%
Insurance Premium Tax	0.1	0.7	600.0%	n/m	106.0	110.0	3.8%
Cigarette Tax	48.4	48.0	-0.8%	1.2%	94.6	97.0	2.6%
Tobacco Tax	2.9	3.1	6.9%	25.0%	5.7	5.7	-0.2%
Beer Tax	6.6	6.6	0.0%	0.0%	12.5	12.5	0.2%
Franchise Tax	15.9	16.8	5.7%	13.3%	35.6	35.6	-0.1%
Miscellaneous Tax	1.1	1.9	72.7%	-350.0%	1.2	1.0	-16.0%
Total Special Taxes	\$ 1,907.8	\$ 2,001.4	4.9%	2.1%	\$ 4,267.3	\$ 4,436.9	4.0%
Institutional Payments	51.5	37.0	-28.2%	-24.4%	104.3	73.1	-29.9%
Liquor Transfers:							
Profits	14.5	14.5	0.0%	0.0%	28.8	30.0	4.2%
7% Gross Revenue	4.5	4.5	0.0%	0.0%	9.0	9.0	0.0%
Interest	8.4	14.7	75.0%	82.4%	18.0	20.0	11.4%
Fees	29.2	31.0	6.2%	0.0%	63.6	64.8	1.9%
Judicial Revenue	15.8	16.7	5.7%	62.5%	42.9	43.9	2.2%
Miscellaneous Receipts	34.2	27.0	-21.1%	18.5%	54.0	47.3	-12.3%
Racing and Gaming Receipt	56.9	57.7	1.4%	-18.9%	60.0	60.0	0.0%
TOTAL RECEIPTS	2,122.5	2,204.3	3.9%	1.9%	\$ 4,647.9	\$ 4,785.0	2.9%